



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LINCOLN COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LINCOLN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Lincoln County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements. In accordance with OMB Circular A-133 we have issued a qualified opinion on compliance for the HUD Disaster Recovery Initiative program.

Financial Condition:

Fund balances increased by \$591,449 from the prior fiscal year, resulting in a cash surplus of \$2,280,042 as of June 30, 2001. Revenues increased by \$2,266,769 from the prior year and disbursements increased by \$2,362,022.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$1,800,000. Future collections of \$3,360,683 are needed over the next 26 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$1,739,757 as of June 30, 2001. Future principal and interest payments of \$2,728,940 are needed to meet these obligations.

Report Comments:

- Disaster Recovery Initiative Grant Drawdown Requests Should Be Limited To Actual And Immediate Cash Needs
- Disaster Recovery Initiative Grant Funds Were Not Expended Within The 5-day Restriction For Disbursing Federal Funds
- A Subrecipient Agreement Between The Lincoln County Fiscal Court And The McKinney Water District Should Have Been Obtained Prior To Disbursing Community Development Block Grant (CDBG) Funds

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Ronald W. Gilbert, Lincoln County Judge/Executive

Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Lincoln County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Lincoln County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Lincoln County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Lincoln County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Members of the Lincoln County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2001 on our consideration of Lincoln County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following areas of noncompliance:

- Disaster Recovery Initiative Grant Drawdown Requests Should Be Limited To Actual And Immediate Cash Needs
- Disaster Recovery Initiative Grant Funds Were Not Expended Within The 5-day Restriction For Disbursing Federal Funds
- A Subrecipient Agreement Between The Lincoln County Fiscal Court And The McKinney Water District Should Have Been Obtained Prior To Disbursing Community Development Block Grant (CDBG) Funds.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lincoln County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 25, 2001

LINCOLN COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

R.W. Gilbert	County Judge/Executive
Earlin Cress	Magistrate
Bill Dyehouse	Magistrate
John E. Stevens	Magistrate
Terry L. Wilcher	Magistrate

Other Elected Officials:

John E. Hackley	County Attorney
William David Gooch	Jailer
George O. Spoonamore	County Clerk
Edith Cox	Circuit Court Clerk
Shelby R. Lakes	Sheriff
David Gambrel	Property Valuation Administrator
William Demrow	Coroner

Appointed Personnel:

Teresa Padgett	County Treasurer
Patricia Young	Occupational Tax Collector
Jessica Roark	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

LINCOLN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 1,523,109	
Road and Bridge Fund:		
Cash	19,635	
Jail Fund:		
Cash	86,829	
Local Government Economic Assistance Fund:		
Cash	47,026	
Solid Waste Commission Fund:		
Cash	32,544	
KACo Leasing Trust/Lincoln County Acquisition Account:		
Cash	273,203	
Payroll Revolving Account - Cash	<u>29,889</u>	\$ 2,012,235

Special Revenue Fund Type

Federal Grants Fund:

Cash	\$ 110,452	
Law Enforcement Facilities Fund:		
Cash	<u>8,719</u>	119,171

Debt Service Fund Type

Public Properties Corporation Government

Facilities Series 96 Fund:		
Bond Account	\$ 33,275	
Construction Account	17	
Debt Service Account	<u>145,230</u>	178,522

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Assets and Other Resources (Continued)

Other Resources

General Fund Type

General Fund:

Amounts to be Provided in Future Years for Kentucky Association of Counties Leasing Trust Agreements-Principal		\$ 1,409,757
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Debt Service Fund Type

Public Properties Corporation Government

Facilities Series 96 Fund:

Amounts to be Provided in Future Years for Bond Payments From Administrative Office of the Courts and Fiscal Court	\$ 1,621,478	
Amounts to be Provided in Future Years From Administrative Office of the Courts and Fiscal Court for Kentucky Area Development District Financing Trust Lease Agreement	<u>330,000</u>	<u>1,951,478</u>

Total Assets and Other Resources		<u>\$ 5,671,163</u>
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Liabilities and Fund Balances

Liabilities

General Fund Types

General Fund- Kentucky Association of Counties

Leasing Trust Agreements (Note 5-A,B,C,D,E)	\$ 1,409,757	
Payroll Revolving Account	<u>29,889</u>	\$ 1,439,646

Debt Service Fund Types

Public Properties Corporation Government

Facilities Series 96 Fund:

Bonds Not Matured (Note 4)	\$ 1,800,000	
Kentucky Area Development District Financing Trust Lease Agreement (Note 5-F)	<u>330,000</u>	<u>2,130,000</u>

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Fund Balances

Reserved:

General Fund Type

Solid Waste Commission Fund	\$ 32,544	
KACo Leasing Trust/Lincoln County Acquisition Account	<u>273,203</u>	\$ 305,747

Special Revenue Fund Type

Federal Grants Fund	\$ 110,452	
Law Enforcement Facilities Fund	<u>8,719</u>	119,171

Unreserved:

General Fund Type

General Fund	\$ 1,523,109	
Road and Bridge Fund	19,635	
Jail Fund	86,829	
Local Government Economic Assistance Fund	<u>47,026</u>	<u>1,676,599</u>

Total Liabilities and Fund Balances		<u>\$ 5,671,163</u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LINCOLN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 6,425,150	\$ 3,333,775	\$ 1,053,906	\$ 904,836
Transfers In	452,170		375,584	
Lease Proceeds	892,519			
Total Cash Receipts	<u>\$ 7,769,839</u>	<u>\$ 3,333,775</u>	<u>\$ 1,429,490</u>	<u>\$ 904,836</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,636,916	\$ 2,369,168	\$ 1,591,964	\$ 847,817
Schedule of Solid Waste Commission Fund Expenditures	40,097			
Schedule of KACo Leasing Trust/ Lincoln County Acquisition Account Expenditures	720,437			
Schedule of KADD Financing Trust/ Lincoln County Lease Acquisition Account Expenditures	18,300			
Transfers Out	452,170	421,896		
Bonds:				
Principal Paid	30,000			
Interest Paid	113,042			
Kentucky Association of Counties Leasing Trust-Principal Payment	157,431	126,886	20,515	
Kentucky Area Development District Financing Trust-Principal Payment	10,000			
Total Cash Disbursements	<u>\$ 7,178,393</u>	<u>\$ 2,917,950</u>	<u>\$ 1,612,479</u>	<u>\$ 847,817</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 591,446	\$ 415,825	\$ (182,989)	\$ 57,019
Cash Balance - July 1, 2000 *	<u>1,688,593</u>	<u>1,107,284</u>	<u>202,624</u>	<u>29,810</u>
Cash Balance - June 30, 2001	<u>\$ 2,280,039</u>	<u>\$ 1,523,109</u>	<u>\$ 19,635</u>	<u>\$ 86,829</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

General Fund Types						KADD Financing Trust/Lincoln County Lease Acquisition Account
Local Government Economic Assistance Fund	Solid Waste Commission Fund	KACo Leasing Trust/ Lincoln County Acquisition Accounts				
		Road/Roof Projects	Senior Citizens Building	Fire Trucks		
\$ 25,048	\$ 25,808 8,400	\$ 4,165	\$ 796	\$	\$ 346 22,170	
			637,411	255,108		
<u>\$ 25,048</u>	<u>\$ 34,208</u>	<u>\$ 4,165</u>	<u>\$ 638,207</u>	<u>\$ 255,108</u>	<u>\$ 22,516</u>	
\$	\$	\$	\$	\$	\$	
	40,097					
		100,325	365,004	255,108		
					18,300	
		10,030				
					10,000	
<u>\$ 0</u>	<u>\$ 40,097</u>	<u>\$ 110,355</u>	<u>\$ 365,004</u>	<u>\$ 255,108</u>	<u>\$ 28,300</u>	
\$ 25,048 21,978	\$ (5,889) 38,433	\$ (106,190) 106,190	\$ 273,203	\$	\$ (5,784) 5,784	
<u>\$ 47,026</u>	<u>\$ 32,544</u>	<u>\$ 0</u>	<u>\$ 273,203</u>	<u>\$ 0</u>	<u>\$ 0</u>	

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

	<u>Special Revenue Fund Types</u>	
	<u>Federal Grants Fund</u>	<u>Law Enforcement Facilities Fund</u>
<u>Cash Receipts</u>		
Schedule of Operating Revenue	\$ 937,641	\$ 3,059
Transfers In		
Lease Proceeds		
Total Cash Receipts	<u>\$ 937,641</u>	<u>\$ 3,059</u>
<u>Cash Disbursements</u>		
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 827,967	\$
Schedule of Solid Waste Commission Fund Expenditures		
Schedule of KACo Leasing Trust/ Lincoln County Acquisition Account Expenditures		
Schedule of KADD Financing Trust/ Lincoln County Lease Acquisition Account Expenditures		
Transfers Out		
Bonds:		
Principal Paid		
Interest Paid		
Kentucky Association of Counties Leasing Trust-Principal Payment		
Kentucky Area Development District Financing Trust-Principal Payment		
Total Cash Disbursements	<u>\$ 827,967</u>	<u>\$ 0</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 109,674	\$ 3,059
Cash Balance - July 1, 2000 *	<u>778</u>	<u>5,660</u>
Cash Balance - June 30, 2001	<u>\$ 110,452</u>	<u>\$ 8,719</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

Debt Service Fund Types		
Public Properties Corporation		
Government Facilities Series 96 Fund		
Bond Account	Construction Account	Debt Service Account
\$ 127,665 46,016	\$ 1	\$ 8,104
\$ 173,681	\$ 1	\$ 8,104
\$	\$	\$
22,170		8,104
30,000		
113,042		
\$ 165,212	\$ 0	\$ 8,104
\$ 8,469 24,806	\$ 1 16	\$ 145,230
\$ 33,275	\$ 17	\$ 145,230

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Lincoln County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Solid Waste Commission Fund, the KACo Leasing Trust/Lincoln County Acquisition Accounts, the KADD Financing Trust/Lincoln County Lease Acquisition Account, and the Public Properties Corporation Government Facilities Series 96 Fund as part of the reporting entity.

The Solid Waste Commission (the Commission) is established for the purpose of implementing a Solid Waste Management Plan as required by Kentucky Revised Statutes. The Lincoln County Fiscal Court (the Fiscal Court) is financially accountable for the Commission; therefore, management must include the Commission as a part of the reporting entity and its financial activity will be blended with that of the Fiscal Court.

The KACo Leasing Trust/Lincoln County Acquisition Accounts and the KADD Financing Trust/Lincoln County Lease Acquisition Account (the Acquisition Accounts) are established for the Fiscal Court for the purpose of providing long-term financing for approved projects. A third party trustee maintains the Acquisition Accounts on the Fiscal Court's behalf; therefore, management must include the Acquisition Accounts as a part of the reporting entity and their financial activity will be blended with that of the Fiscal Court.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity will be blended with that of the Fiscal Court.

Additional - Lincoln County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lincoln County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Lincoln County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Lincoln County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Solid Waste Commission Fund, KACo Leasing Trust/Lincoln County Acquisition Accounts, and the KADD Financing Trust/Lincoln County Lease Acquisition Account.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Federal Grants Fund and the Law Enforcement Facilities Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and include funds for the Public Properties Corporation Government Facilities Series 96 Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Lincoln County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Government Facilities Series 96 Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

Formal budgets are not required to be adopted for the Solid Waste Commission Fund, The KACo Leasing Trust/Lincoln County Acquisition Accounts, and the KADD Financing Trust/Lincoln County Lease Acquisition Account (General Fund Type).

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the McKinney Water District is considered a related organization of Lincoln County Fiscal Court.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Jointly Governed Organization

The Stanford/Lincoln County Industrial Authority, whose purpose is to acquire and develop industrial sites and plants for the community, is a joint board of the County and City. The County Judge/Executive with the approval of fiscal court appoints three members and the Mayor with the approval of the city council appoints three members. The County has no equity interest. The County did not contribute any funds to the Stanford/Lincoln County Industrial Authority for the year ended June 30, 2001.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

LINCOLN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 4. Long-Term Debt

Bonds outstanding of the Public Properties Government Facilities Project Bond Series 1996 Fund are:

Fiscal Year Ending June 30	Principal Payment	Interest Payment	Total Payment	Less Debt Service Reserve & Cap. Interest	Less AOC Rental Amount*	Net Amount Due From County
2002	\$ 30,000	\$ 111,543	\$ 141,543	\$ (7,988)	\$ (97,142)	\$ 36,413
2003	35,000	110,043	145,043	(7,988)	(97,142)	39,913
2004	35,000	108,205	143,205	(7,988)	(97,142)	38,075
2005	35,000	106,368	141,368	(7,988)	(97,142)	36,238
2006- 2027	<u>1,665,000</u>	<u>1,477,432</u>	<u>3,142,432</u>	<u>(320,956)</u>	<u>(2,137,124)</u>	<u>684,352</u>
Totals	<u>\$ 1,800,000</u>	<u>\$ 1,913,591</u>	<u>\$ 3,713,591</u>	<u>\$ (352,908)</u>	<u>\$ (2,525,692)</u>	<u>\$ 834,991</u>

* In accordance with a sublease agreement between Administrative Office of the Courts (AOC) and the Lincoln County Fiscal Court dated May 1, 1996, AOC committed itself to participate in providing part of the costs of constructing a courthouse annex through use allowance payments.

Note 5. Capital Lease Agreement

- A. On August 21, 1992, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KACo Leasing Trust for the purchase of an E-911 building facility. Principal payments are due annually by January 20.

<u>Principal Payment Dates</u>		
<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Principal Payment</u>
01/20/2002	\$ 2,611	\$ 3,000
01/20/2003	2,449	2,000
01/20/2004	2,298	3,000
01/20/2005	2,085	4,000
01/20/2006	1,834	4,000
01/20/2007	1,584	4,000
01/20/2008	1,308	5,000
01/20/2009	1,021	4,000
01/20/2010	771	4,000
01/20/2011	495	5,000
01/20/2012	182	<u>5,000</u>
Total Principal Outstanding June 30, 2001		<u>\$ 43,000</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Capital Lease Agreement (Continued)

- B. On August 17, 1993, the Lincoln County Fiscal Court entered into a ten-year leasing agreement with KACo Leasing Trust for the purchase of E-911 equipment. Principal payments are due monthly.

<u>Principal Payment Dates</u>		
<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2002	\$ 766	\$ 8,648
2003	324	9,043
2004	10	<u>1,547</u>
Total Principal Outstanding June 30, 2001		<u>\$ 19,238</u>

- C. On April 6, 1996, the Lincoln County Fiscal Court entered into a 23-year leasing agreement with KACo Leasing Trust for the City of Stanford's Pine Hall Water Project. Principal payments are due annually by January 20.

<u>Principal Payment Dates</u>		
<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
1/20/2002	\$ 27,769	\$ 16,000
1/20/2003	26,752	17,000
1/20/2004	25,674	18,000
1/20/2005	24,533	19,000
1/20/2006	23,330	20,000
1/20/2007	22,066	21,000
1/20/2008	20,739	22,000
1/20/2009	19,351	23,000
1/20/2010	17,900	24,000
1/20/2011	16,388	25,000
1/20/2012	14,814	26,000
1/20/2013	13,152	28,000
1/20/2014	11,391	29,000
1/20/2015	9,570	30,000
1/20/2016	7,660	32,000
1/20/2017	5,626	34,000
1/20/2018	3,494	35,000
1/20/2019	1,301	<u>36,000</u>
Total Principal Outstanding June 30, 2001		<u>\$ 455,000</u>

LINCOLN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 5. Capital Lease Agreement (Continued)

- D. On April 5, 2001, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACo Leasing Trust for the purchase of two fire trucks. Principal payments are due annually by January 20.

<u>Due Date</u>	<u>Principal Payment Dates</u>	
	<u>Scheduled Interest</u>	<u>Principal Amount</u>
1/20/2002	\$ 12,289	\$ 21,000
1/20/2003	11,220	22,000
1/20/2004	10,102	23,000
1/20/2005	8,934	24,000
1/20/2006	7,716	25,000
1/20/2007	6,448	26,000
1/20/2008	5,131	27,000
1/20/2009	3,763	28,000
1/20/2010	2,346	29,000
1/20/2011	877	30,108
Total Principal Outstanding June 30, 2001		<u>\$ 255,108</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Capital Lease Agreement (Continued)

- E. On May 16, 2001, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KACo Leasing Trust for the construction of a Senior Citizens Center. Principal payments are due annually by January 20.

<u>Due Date</u>	<u>Principal Payment Dates</u>	
	<u>Scheduled Interest</u>	<u>Principal Amount</u>
1/20/2002	\$ 35,256	\$ 17,411
1/20/2003	34,140	20,000
1/20/2004	33,024	20,000
1/20/2005	31,791	25,000
1/20/2006	30,396	25,000
1/20/2007	29,000	25,000
1/20/2008	27,605	25,000
1/20/2009	26,210	25,000
1/20/2010	24,698	30,000
1/20/2011	23,024	30,000
1/20/2012	21,349	30,000
1/20/2013	19,559	35,000
1/20/2014	17,605	35,000
1/20/2015	15,651	35,000
1/20/2016	13,582	40,000
1/20/2017	11,349	40,000
1/20/2018	9,116	40,000
1/20/2019	6,768	45,000
1/20/2020	4,256	45,000
1/20/2021	1,628	50,000
Total Principal Outstanding June 30, 2001		\$ 637,411
Total KACo Leasing Trust Agreements		\$ 1,409,757

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Capital Lease Agreement (Continued)

- F. On June 24, 1999, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with a KADD Financing Trust for construction costs to complete the second floor of the courthouse annex.

Fiscal Year Ending June 30	Principal Payment	Interest Payment	Trustee Fee	Total Payment	Less AOC Rental Amount*	Net Amount Due From County
2002	\$ 10,000	\$ 17,320	\$ 500	\$ 27,820	\$ (28,000)	\$ (180)
2003	10,000	16,840	500	27,340	(28,000)	(660)
2004	10,000	18,360	500	28,860	(28,000)	860
2005	15,000	15,880	500	31,380	(28,000)	3,380
2006- 2020	285,000	126,702	7,500	419,202	(392,000)	27,202
Totals	<u>\$ 330,000</u>	<u>\$ 195,102</u>	<u>\$ 9,500</u>	<u>\$ 534,602</u>	<u>\$ (504,000)</u>	<u>\$ 30,602</u>

* In accordance with a sublease agreement between Administrative Office of the Courts (AOC) and the Lincoln County Fiscal Court dated April 15, 1998, AOC committed itself to participate in providing part of the costs of completing the second floor of the courthouse annex through use allowance payments.

Note 6. Lease-Purchase Agreement

The county has entered into the following lease-purchase agreements:

Items Purchased	Annual Payment	Term of Agreement	Ending Date	Principal Balance 6/30/01
Two 1999 Ford Crown Victorias	\$ 11,482	3 Years	03/05/2002	\$ 10,822
2001 Ford Crown Victoria	\$ 6,066	3 Years	06/15/2004	\$ 16,124

Note 7. E-911 Sublease Agreements

- A. August 21, 1992, the Lincoln County Fiscal Court entered into a 20-year lease agreement with KACo Leasing Trust for the purchase of an E-911 building. On that same date, Lincoln County Fiscal Court and Lincoln County Emergency Communications Commission entered into a sublease which stated that for and in consideration of E-911 being allowed to utilize the properties as set up in the KACo Leasing Trust agreement with the county, E-911 will reimburse the county all rental payments as set out in the county's KACo Leasing Trust agreement. As of June 30, 2001, the Lincoln County Emergency Communications Commission was in substantial compliance with the agreement.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. E-911 Sublease Agreements (Continued)

- B. On August 10, 1993, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACo Leasing Trust for the purchase of E-911 equipment. On that same date, Lincoln County Fiscal Court and Lincoln County Emergency Communications Commission entered into a sublease which stated that for and in consideration of E-911 being allowed to utilize the properties as set up in the KACo Leasing Trust agreement with the county, E-911 will reimburse the county all rental payments as set out in the county's KACo Leasing Trust agreement. As of June 30, 2001, the Lincoln County Emergency Communications Commission was in substantial compliance with the agreement.

Note 8. City of Stanford Sublease Agreement

On April 4, 1996, the Lincoln County Fiscal Court entered into a 23-year leasing agreement with KACo Leasing Trust for the City of Stanford's Pine Hall Water Project. On that same date, Lincoln County Fiscal Court and the City of Stanford entered into a sublease which stated the City of Stanford will reimburse the county all rental payments as set out in the county's KACo Leasing Trust agreement. As of June 30, 2001, the City of Stanford was in substantial compliance with the agreement.

Note 9. Insurance

For the fiscal year ended June 30, 2001, Lincoln County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

As of June 30, 2000, the Lincoln County Jail Canteen Fund had a balance of \$18,289. The Lincoln County Jail Canteen Fund had income of \$105,186, less cost of goods sold of \$100,701, leaving an ending balance of \$22,774 as of June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LINCOLN COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,793,060	\$ 3,333,775	\$ 540,715
Road and Bridge Fund	1,005,900	1,053,906	48,006
Jail Fund	794,406	904,836	110,430
Local Government Economic Assistance Fund	15,360	25,048	9,688
<u>Special Revenue Fund Type</u>			
Federal Grants Fund	1,250,766	937,641	(313,125)
Law Enforcement Facilities Fund	<u>4,000</u>	<u>3,059</u>	<u>(941)</u>
Totals	<u>\$ 5,863,492</u>	<u>\$ 6,258,265</u>	<u>\$ 394,773</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 5,863,492
Add: Budgeted Prior Year Surplus			1,334,604
Less: Other Financing Uses			<u>(193,727)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 7,004,369</u>

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SCHEDULE OF OPERATING REVENUE

LINCOLN COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 1,686,721	\$ 1,686,721	\$	\$
Excess Fees	81,222	81,222		
License and Permits	56,108	56,108		
Intergovernmental Revenues	4,051,178	2,988,495	937,541	125,142
Charges for Services	343,816	343,816		
Miscellaneous Revenues	136,758	133,756	3,002	
Interest Earned	69,347	58,562	157	10,628
Total Operating Revenue	<u>\$ 6,425,150</u>	<u>\$ 5,348,680</u>	<u>\$ 940,700</u>	<u>\$ 135,770</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LINCOLN COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 844,087	\$ 726,818	\$ 117,269
Protection to Persons and Property	972,252	894,258	77,994
General Health and Sanitation	339,266	333,134	6,132
Social Services	490,957	339,030	151,927
Recreation and Culture	105,072	75,698	29,374
Roads	1,361,538	1,320,373	41,165
Debt Service	117,391	56,265	61,126
Capital Projects	821,826	433,743	388,083
Administration	668,724	629,630	39,094
Total Operating Budget - All General Fund Types	\$ 5,721,113	\$ 4,808,949	\$ 912,164
Other Financing Uses:			
KACO Leasing Trust Agreements-			
Principal-			
E-911 Building	3,000	3,000	
E-911 Equipment	8,940	8,940	
Pine Hall Water Project	15,000	15,000	
Roofing and Road Projects	120,474	120,461	13
Transfers to Solid Waste Commission Fund	8,400	8,400	
Transfers to Public Property Corporation Government Facilities Series 96 Fund	37,913	37,912	1
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 5,914,840</u>	<u>\$ 5,002,662</u>	<u>\$ 912,178</u>

LINCOLN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Health and Sanitation	\$ 462,236	\$ 434,636	\$ 27,600
Capital Projects	821,020	393,331	427,689
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 1,283,256	\$ 827,967	\$ 455,289

SCHEDULE OF SOLID WASTE
COMMISSION FUND EXPENDITURES

LINCOLN COUNTY
SCHEDULE OF SOLID WASTE COMMISSION FUND EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Items

Office Supplies	\$ 2,842
Office Furniture and Equipment	1,815
Advertising	542
Conferences	80
Dues	75
Telephone	348
Part-time Help	8,346
Equipment - PRIDE Grant	19,245
Repairs and Maintenance	3,801
Recycle Van	2,300
Miscellaneous	<u>703</u>
Totals	<u><u>\$ 40,097</u></u>

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SCHEDULE OF KACo LEASING TRUST/LINCOLN COUNTY
ACQUISITION ACCOUNT EXPENDITURES

LINCOLN COUNTY
 SCHEDULE OF KACo LEASING TRUST/LINCOLN COUNTY
ACQUISITION ACCOUNT EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Items	KACo Leasing Trust/ Lincoln County Acquisition Accounts		
	Road/Roof Projects	Senior Citizens Building	Fire Trucks
Road Equipment	\$ 100,325	\$	\$
Construction Expenditures		365,004	
Fire Trucks			255,108
Total	<u>\$ 100,325</u>	<u>\$ 365,004</u>	<u>\$ 255,108</u>

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SCHEDULE OF KADD FINANCING TRUST/LINCOLN COUNTY
LEASE ACQUISITION ACCOUNT EXPENDITURES

LINCOLN COUNTY
SCHEDULE OF KADD FINANCING TRUST/LINCOLN COUNTY
LEASE ACQUISITION ACCOUNT EXPENDITURES

Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>Sinking Account</u>
Interest and Trust Fee	<u>\$ 18,300</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Ronald W. Gilbert, Lincoln County Judge/Executive

Members of the Lincoln County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Lincoln County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 25, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lincoln County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 25, 2001

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Ronald W. Gilbert, Lincoln County Judge/Executive

Members of the Lincoln County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Lincoln County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Lincoln County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lincoln County's management. Our responsibility is to express an opinion on Lincoln County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lincoln County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lincoln County's compliance with those requirements.

As described in item 2001-2 in the accompanying schedule of findings and questioned costs, Lincoln County did not comply with requirements regarding cash management that are applicable to its Housing and Urban Development - Disaster Recovery Initiative Program. Compliance with such requirements is necessary, in our opinion, for Lincoln County to comply with the requirements applicable to that program.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Compliance (Continued)

In our opinion, except for the noncompliance described in the preceding paragraph, Lincoln County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2001-3.

Internal Control Over Compliance

The management of Lincoln County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lincoln County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Lincoln County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2001-1.

- Disaster Recovery Initiative Grant Drawdown Requests Should Be Limited To Actual And Immediate Cash Needs

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described in the accompanying schedule of findings and questioned costs as item 2001-1 to be a material weakness.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 25, 2001

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FINDINGS AND QUESTIONED COSTS

LINCOLN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Lincoln County.
2. No reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Lincoln County were disclosed during the audit.
4. One reportable condition disclosed during the audit of the major federal awards programs is reported in the Independent Auditor's Report. The condition is reported as a material weakness.
5. The auditor's report on compliance for the audit of the Housing and Urban Development Disaster Recovery Initiative program for Lincoln County expresses a qualified opinion; the report on the remaining program is unqualified.
6. Audit findings relative to the major federal awards programs for Lincoln County are reported in Part C of this schedule.
7. The programs tested as major programs were: Community Development Block Grant-McKinney Water District Project CFDA #14.228 and 1998 HUD Disaster Recovery Initiative - Lincoln County HUD Disaster (DRI) Project Pass-Through Grant # 98-100-M-00189705.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Lincoln County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

The County should have required depository institutions to pledge or provide sufficient collateral to protect deposits. This finding had been resolved in the current year.

LINCOLN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2001
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

REPORTABLE CONDITIONS

Reference Number 2001-1 - 1998 HUD Disaster Recovery Initiative Grant – Pass-Through Grant # 98-100-M-00189705

Disaster Recovery Initiative Grant Drawdown Requests Should Be Limited To Actual And Immediate Cash Needs

In February 2001, the county received \$502,905 of Housing and Urban Development (HUD) - Disaster Recovery Initiative (DRI) funds from the Department for Local Government (DLG) as reimbursement for three bridge replacements. The contract award amount for the bridge replacements was \$446,200. As of June 30, 2001, there had been two change orders bringing the revised contract to \$478,572. Four monthly payments were made to the contractor beginning March 2001; therefore, grant drawdown requests should have been made only for the immediate cash needs based on the approved monthly contractor's request for payments. As of June 30, 2001 the federal grant had a cash balance of \$109,575. Based on DLG's Community Development Block Grant (CDBG) Manual, which was incorporated by reference in the HUD DRI grant agreement, "the request for funds shall be limited to the minimum amount needed and shall be timed to be in accordance with the actual, immediate cash requirements of the grantee in carrying out the approved activities." DLG and the grant administrator did not follow the established financial management monitoring procedures which resulted in the county receiving grant funds in excess of actual, immediate cash needs. We recommend the established cash management monitoring procedures be followed in the future in order for the county to avoid having an unexpended federal grant cash balance.

County Judge/Executive Ronald W. Gilbert's Response:

I will more closely make myself aware of monitoring procedures to help avoid future problems. We were advised by our Grant Administrator that regulations were different with HUD DRI funds and to draw down the full amount.

LINCOLN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Fiscal Year Ended June 30, 2001
 (Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
 AUDIT (Continued)

NONCOMPLIANCES

Reference Number 2001-2 - 1998 HUD Disaster Recovery Initiative Grant - Pass-Through Grant # 98-100-M-00189705

Disaster Recovery Initiative Grant Funds Were Not Expended Within The 5-day Restriction For Disbursing Federal Funds

As discussed at Reference Number 2001-1, the county was in violation of the five-day restriction for disbursing the federal funds. We remind the county that DLG's CDBG Manual, which was incorporated by reference in the HUD DRI grant agreement, states "if excessive amounts of cash (over \$5,000) are or will be on hand for an extended period of time (over five days), the grantee must return the excess to DLG. Excessive cash was maintained in the HUD DRI bank account from February 28, 2001 through June 30, 2001. We recommend the county comply with the cash management requirements as specified in the CDBG Manual.

County Judge/Executive Ronald W. Gilbert's Response:

I was aware of the five-day restriction; however, our Grant Administrator stated HUD DRI Funds were handled differently. I intend to always comply in the future and will check more thoroughly into requirements if in doubt.

Reference Number 2001-3 - Community Development Block Grant - CFDA #14.228

A Subrecipient Agreement Between The Lincoln County Fiscal Court And The McKinney Water District Should Have Been Obtained Prior To Disbursing Community Development Block Grant (CDBG) Funds.

During the fiscal year, the county disbursed \$424,636 of CDBG funds for the Phase 3 Water System Extensions Project to the McKinney Water District, a subrecipient of the county's federal financial assistance, without obtaining a written subrecipient agreement. We remind the fiscal court that the Code of Federal Regulations (CFR) Chapter 24, Section 570.503 states "before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall at a minimum include the statement of work, records and reports, program income, and uniform administrative requirements." In the future, we recommend the county obtain written subrecipient agreements prior to disbursing any CDBG funds.

County Judge/Executive Ronald W. Gilbert's Response:

The County obtained a Legally Binding Agreement October 9, 2001. In the future, I plan to check with the Grant Administrator to make sure this is done if a subrecipient situation occurs.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LINCOLN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>Cash Programs:</u>		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grant- McKinney Water District Project (CFDA #14.228)(Note 2)	B-98-DC-21- 0001(024)	\$ 434,636
1998 HUD Disaster Recovery Initiative- Lincoln County HUD Disaster (DRI) Project (CFDA # Not Available)	98-100 M-00189705	<u>393,330</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 827,966</u>
<u>U.S. Appalachian Regional Commission</u>		
Direct Program:		
Appalachian Regional Commission Grant-911 System Enhancements (CFDA #23.002)	KY-12824-I-302-97	\$ 5,920
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	\$ 1,600

LINCOLN COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2001
 (Continued)

U.S. Department of Commerce

Passed-Through Eastern Kentucky PRIDE, Inc.		
PRIDE Community Grant Program-		
Spring 2000		
(CFDA #11.469)	CF00-26	\$ 3,820
Fall 2000		
(CFDA #11.469)	CS00-31	<u>19,245</u>
Total National Oceanic and Atmospheric		
Total U.S. Department of Commerce		<u>\$ 23,065</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 858,551</u></u>

LINCOLN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - The federal expenditures for the Community Development Block Grant- McKinney Water District Project and Appalachian Regional Commission Grant-911 System Enhancements include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Number</u>	<u>Pass-through Grant Amount</u>
McKinney Water District	B-98-DC-21-0001(024)	\$ 424,636
Lincoln County Emergency Communication	KY-12824-I-302-97	\$ 5,920

Note 3 - During fiscal year ended June 30, 2001, the county disbursed \$424,636 of Community Development Block Grant funds to the McKinney Water District, a subrecipient of the county's federal financial assistance. These funds were monitored by the county and William D. Ruth III, CPA was engaged to perform the audit of the McKinney Water District in accordance with OMB Circular A-133.

Note 4 - Subsequent Events - 1998 HUD Disaster Recovery Initiative (DRI) Grant

As of October 25, 2001, the bridge replacement portion of the HUD DRI grant has been completed and the bank account has a remaining balance of \$19,759. The grant agreement states that upon completion of all closeout procedures pertaining to this project any grant funds remaining to be disbursed shall be returned to the Commonwealth for redistribution within the grant program.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

LINCOLN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LINCOLN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Lincoln County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, reading "Ronald W. Gilbert", written over a horizontal line.

Ronald W. Gilbert
County Judge/Executive

A handwritten signature in cursive script, reading "Teresa Padgett", written over a horizontal line.

Teresa Padgett
County Treasurer